

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name City of Battle Creek, Kellogg Arena Fund	County Calhoun
Fiscal Year End June 30, 2006	Opinion Date September 20, 2006	Date Audit Report Submitted to State December 27, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

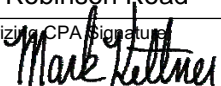
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517-787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

**CITY OF BATTLE CREEK
KELLOGG ARENA FUND**

Battle Creek, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
June 30, 2006**



REHMANN ROBSON

Certified Public Accountants

CITY OF BATTLE CREEK KELLOGG ARENA FUND

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 20, 2006

To the Honorable Mayor and
Members of the City Council of the
City of Battle Creek, Michigan and
Management of the Kellogg Arena Fund
Battle Creek, Michigan

We have audited the accompanying financial statements of the ***KELLOGG ARENA FUND, a special revenue fund of the City of Battle Creek, Michigan***, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Kellogg Arena Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Kellogg Arena Fund and do not purport to, and do not present fairly the financial position of the City of Battle Creek, Michigan as of June 30, 2006, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kellogg Arena Fund as of June 30, 2006, and the changes in financial position thereof and the budgetary comparison of the fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Kellogg Arena Fund has not presented Management's Discussion and Analysis as required supplementary information. The Governmental Accounting Standards Board has determined that such information is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Kellogg Arena Fund. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

FINANCIAL STATEMENTS

KELLOGG ARENA FUND

Balance Sheet

June 30, 2006

ASSETS

Assets

Cash and cash equivalents	\$ 246,534
Accounts receivable	193,121
Inventories	14,653
Prepaid items	<u>2,724</u>

TOTAL ASSETS

\$ 457,032

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable and accrued liabilities	\$ 86,917
Deferred revenue	<u>17,475</u>

Total liabilities 104,392

Fund balance

Reserved:	
Reserved for inventories	14,653
Reserved for prepaid items	2,724
Unreserved, undesignated	<u>335,263</u>

Total fund balance 352,640

TOTAL LIABILITIES AND FUND BALANCE

\$ 457,032

The accompanying notes are an integral part of these financial statements.

KELLOGG ARENA FUND
Statement of Revenues, Expenditures
and Changes in Fund Balance - Amended Budget and Actual
For the Year Ended June 30, 2006

	Amended Budget	Actual	Over (Under) Budget
Revenues			
Events	\$ 853,448	\$ 883,384	\$ 29,936
Concessions	193,192	220,545	27,353
Contract	-	518,029	518,029
Novelty	25,735	21,337	(4,398)
Bar	84,294	104,701	20,407
Pro Shop	-	5,262	5,262
Other	32,155	23,640	(8,515)
	<hr/>	<hr/>	<hr/>
Total revenues	1,188,824	1,776,898	588,074
	<hr/>	<hr/>	<hr/>
Expenditures			
Operating	873,797	1,017,505	143,708
Building	305,410	302,140	(3,270)
Administrative	476,612	513,442	36,830
Renovation	-	1,118,590	1,118,590
	<hr/>	<hr/>	<hr/>
Total expenditures	1,655,819	2,951,677	1,295,858
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(466,995)	(1,174,779)	(707,784)
	<hr/>	<hr/>	<hr/>
Other financing sources			
Transfer from City of Battle Creek	-	176,000	176,000
Transfer from Battle Creek Downtown Development Authority	75,000	641,860	566,860
	<hr/>	<hr/>	<hr/>
Total other financing sources	75,000	817,860	742,860
	<hr/>	<hr/>	<hr/>
Net change in fund balance	(391,995)	(356,919)	35,076
	<hr/>	<hr/>	<hr/>
Fund balance, beginning of year	709,559	709,559	-
	<hr/>	<hr/>	<hr/>
Fund balance, end of year	<u>\$ 317,564</u>	<u>\$ 352,640</u>	<u>\$ 35,076</u>

The accompanying notes are an integral part of these financial statements.

KELLOGG ARENA FUND

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Kellogg Arena Fund (the “Fund”), a special revenue fund of the City of Battle Creek, Michigan, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the fund’s accounting policies are described below.

Reporting Entity – These financial statements represent the financial condition and the results of operations of a special revenue fund of the City of Battle Creek, Michigan (the “City”) and are an integral part of that reporting entity. The Fund is not a component unit of the City or any other reporting entity, as defined by GASB Statement No. 14, *The Financial Reporting Entity*.

The Fund is used to account for the activities of two City-owned public entertainment and recreation facilities: the Kellogg Arena and The Rink, which is an enclosed ice rink. Both facilities are managed and operated by the Cereal City Development Corporation (CCDC), a legally separate nonprofit organization, pursuant to an agreement with the City. CCDC is not a component unit of the City or any other reporting entity, as defined by GASB Statement No. 14, since it is not a unit or instrumentality of government.

Basis of Accounting – The City uses a special revenue fund (i.e., a separate accounting entity with a self-balancing set of accounts, using the modified-accrual basis of accounting) to report the Fund’s financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions and activities.

Deposits and Investments – The Fund’s cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize local governments to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

KELLOGG ARENA FUND

Notes to Financial Statements

Receivables - Receivables consist primarily of fees and other such charges for services to third parties that rent the facilities for conventions, meetings and other events and are reported net of amounts estimated to be uncollectible.

Inventories - Inventories are valued at cost using the first-in/first-out (FIFO) method.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Revenue Recognition - Revenues from certain facility activities are recognized at the time the related events occur. Accordingly, advanced ticket sales and deposits paid by customers prior to the date of event are reported as unearned revenues.

Compensated Absences – Employees are permitted to accumulate earned but unused vacation. A liability for the value of unused vacation is reported in governmental funds only if they have matured, for example, as a result of employee resignations or terminations.

Fund Equity - Reservations of fund balance represent amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

Budgetary Information - The Fund is under formal budgetary control and its budget is prepared on the same modified accrual basis used to reflect actual results. The Fund follows the City budget process in establishing the budgetary data reflected in the financial statements:

- CCDC submits a proposed budget to the City Manager. After review and approval, the City Manager submits a recommended operating budget to the City Commission. Public hearings are held to obtain taxpayer comments. The budget is legally adopted through a City Commission resolution prior to the beginning of the budgetary year.
- The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted or amended by the City Commission during the year. Individual amendments, if any, were not material in relation to the original appropriations.

The budget is adopted at the fund level and unfavorable variances at this level of legal control are displayed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

KELLOGG ARENA FUND

Notes to Financial Statements

2. DEPOSITS AND INVESTMENTS

Deposits – At year-end, the carrying amount of the Fund’s deposits was \$238,665 (total cash and cash equivalents of \$246,534 includes \$7,869 of petty cash) and the bank balance was \$290,142. Of the bank balance, \$190,142 was uninsured and uncollateralized.

3. RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Fund carries commercial insurance. The Fund has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

4. DEFINED CONTRIBUTION PENSION PLAN

The Fund has a defined contribution pension plan covering substantially all full-time employees who have completed one year of employment. The employer reserves the right to amend or terminate the plan at any time. The Fund contributes 15% of participating employees’ annual compensation to the plan. There is no employee contribution requirement. Employer contributions for the year ended June 30, 2006 were \$70,468.

5. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Fund were adopted on a fund level basis, although budget and actual information in the fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended June 30, 2006, the Fund incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control in the following:

	<u>Budget</u>	<u>Actual</u>	<u>Over Budget</u>
Kellogg Arena Fund	\$ 1,655,819	\$ 2,951,677	\$ 1,295,858

* * * * *

SUPPLEMENTAL SCHEDULE

KELLOGG ARENA FUND
Schedule of Revenues and Expenditures by Facility - Amended Budget and Actual
For the Year Ended June 30, 2006

	Kellogg Arena		
	Amended Budget	Actual	Over (Under) Budget
Revenues			
Events	\$ 618,345	\$ 634,762	\$ 16,417
Concessions	166,509	185,333	18,824
Contract	-	518,029	518,029
Novelty	25,735	21,337	(4,398)
Bar	84,294	104,701	20,407
Pro Shop	-	-	-
Other	30,855	21,386	(9,469)
	<u>925,738</u>	<u>1,485,548</u>	<u>559,810</u>
Total revenues			
Expenditures			
Operating:			
Events	317,878	345,827	27,949
Concessions	71,220	92,385	21,165
Contract	428,602	521,887	93,285
Novelty	10,903	1,547	(9,356)
Bar	29,655	34,390	4,735
Pro Shop	-	-	-
Building	222,203	221,608	(595)
Administrative	309,220	366,873	57,653
Renovation	-	1,118,590	1,118,590
	<u>1,389,681</u>	<u>2,703,107</u>	<u>1,313,426</u>
Total expenditures			
Revenues over (under) expenditures	<u>(463,943)</u>	<u>(1,217,559)</u>	<u>(753,616)</u>
Other financing sources			
Transfer from City of Battle Creek	-	176,000	176,000
Transfer from Battle Creek Downtown Development Authority	75,000	641,860	566,860
	<u>75,000</u>	<u>817,860</u>	<u>742,860</u>
Total other financing sources			
Net change in fund balance	<u>\$ (388,943)</u>	<u>\$ (399,699)</u>	<u>\$ (10,756)</u>

The Rink		
Amended Budget	Actual	Over (Under) Budget
\$ 235,103	\$ 248,622	\$ 13,519
26,683	35,212	8,529
-	-	-
-	-	-
-	-	-
-	5,262	5,262
1,300	2,254	954
263,086	291,350	28,264
-	-	-
15,539	19,298	3,759
-	-	-
-	-	-
-	-	-
-	2,171	2,171
83,207	80,532	(2,675)
167,392	146,569	(20,823)
-	-	-
266,138	248,570	(17,568)
(3,052)	42,780	45,832
-	-	-
-	-	-
-	-	-
\$ (3,052)	\$ 42,780	\$ 45,832



REHMANN ROBSON

Certified Public Accountants

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September 20, 2006

To the Members of the City Council of the City of Battle Creek
and Management of the Kellogg Arena Fund
Battle Creek, Michigan

We have audited the financial statements of the Kellogg Arena Fund, a special revenue fund of the City of Battle Creek, Michigan for the year ended June 30, 2006, and have issued our report thereon dated September 20, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated July 27, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Kellogg Arena Fund. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Kellogg Arena Fund are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Kellogg Arena Fund during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates for the year ended June 30, 2006.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Kellogg Arena Fund's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Kellogg Arena Fund, either individually or in the aggregate, indicate matters that could have a significant effect on the Kellogg Arena Fund's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as **[Name of Governmental Unit]**'s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Members of the City Council of the City of Battle Creek, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.